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Mexico

Sugar

Tax for Beverages Using HFCS Continues 2004

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Report Highlights:

The Mexican Congress voted to continue the 20-percent tax on HFCS containing beverages, despite last-minute attempts by various parties to restructure it. The continuation of the tax was subsequently published in the *Diario Oficial*, (Federal Register) on December 31, 2003.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Mexico [MX1]
[MX]

Introduction: This report summarizes the announcement of the 20-percent tax on the use of HFCS in beverages as published in Mexico's "*Diario Oficial*" (Federal Register) on December 31, 2003.

Disclaimer: This summary is based on a *cursory* review of the subject announcement and therefore should not, under any circumstances, be viewed as a definitive reading of the regulation in question, or of its implications for U.S. agricultural export trade interests. In the event of a discrepancy or discrepancies between this summary and the complete regulation or announcement as published in Spanish, the latter shall prevail.

FAS/Mexico's Executive Summary: Despite efforts from different interested parties in Mexico to have Congress remove or restructure the 20-percent tax on high fructose corn syrup (HFCS) containing beverages, the Mexican Congress voted on December 31, 2003, to continue the tax in its original form. This decision was subsequently published in a *Diario Oficial* announcement of the same date. This year marks the third consecutive year this tax has been in effect. The 2004 Law of Special Taxes on Production and Services on this issue, states the following:

a) Article 2, I, G, states that *the 20 percent applies to soft drinks and beverages, concentrates, powders, syrups, or extracts that, when diluted, a hydrated drink can be obtained.*

However, the tax is still subject to the following article which was published on January 1, 2002:

b) Article 8, I, f, states that *goods referred to in Article 2, I, G and H, will not pay the tax established under this law as long as they use sugar cane only as sweetener.*

The current definition of *soft drink* as stated in the December 31, 2003 announcement changed as follows:

Article 3, XV defines soft drinks as *all flavored, non-alcoholic beverages made with/from water, sweeteners or flavorings, natural, artificial or synthetic, with the addition or not, of juices, pulp or nectar of fruits or vegetables, their concentrates or extracts and other food additives, and can or cannot be carbonated.*

Also, concentrates, powders, syrups, or flavored extracts to prepare soft drinks are considered; product with or without sugar, sweeteners or flavorings, natural, artificial or synthetic, with the addition or not, of juices, pulp or nectar of fruits or vegetables and other food additives.

As in the past, fruit juices and fruit nectars are not considered to be soft drinks, but as a beverage the 20-percent tax applies if it contains a sweetener other than sugar cane.

The definition for *soft drink* has been further refined since the tax first went into effect. In the January 1, 2002 announcement, when the tax was first applied, it read as follows: "*soft drinks are all non-fermented beverages, made with/from water, or carbonated water, extracts or fruit essences, flavorings, with/without gas, as long as they contain fructose.*" That was further refined in the December 30, 2002 announcement which eliminated the words "*as long as they contain fructose.*"

Trade Concerns: The continuation of the tax on beverages that use other sweeteners different from sugar cane means that the soft drink industry will not use HFCS in their formulas and imports of HFCS will continue at very low levels for those industries (i.e., the

bakery, food processing, fruit canning, and yogurt industries) which use HFCS but do not produce beverages and/or soft drinks. Congressional sources indicated that it is unlikely that this tax will be removed until an agreement is reached between the governments of Mexico and the U.S. on sweeteners.

Title: Law of Special Taxes on Production and Services for 2004

Important Dates

1. Publication Date: December 31, 2003

2. Effective Date: January 1, 2004

Agency in Charge: Secretariat of Treasury

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Useful Mexican Web Sites: Mexico's equivalent of the Department of Agriculture (SAGARPA) can be found at www.sagarpa.gob.mx and Mexico's equivalent of the Department of Commerce (SE) can be found at www.economia.gob.mx. These web sites are mentioned for the readers' convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with the information contained on the mentioned sites.